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Special Report

Czechoslovakia's Economic Prospects

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CZECHOSLOVAKIA'S ECONOMIC PROSPECTS

Despite some signs of willingness to move on long-postponed economic questions, the Prague government is in a weak position to tackle the country's basic economic problems. There is, moreover, no short-run solution for the chronic, extensive inefficiency of the Czechoslovak economy. Prospects for the introduction of a wide-ranging economic reform and the establishment of closer economic relations with the West, both considered essential last year, are increasingly unlikely in the aftermath of the August invasion.

Nevertheless, the economy will continue to grow in 1969, as it did in the turbulent past year, under the same economic policies. Considerable increases in personal consumption and the population's income are expected, but not on last year's scale. Investment in the key sectors of heavy industry and agriculture will decline further to support consumer-oriented growth.

POLITICAL FRAMEWORK

With its leadership divided under Soviet pressure, the government in Prague is in a weak position to attack the country's basic economic problems, which played a considerable part in the fall of Novotny in January 1968. Even if unity could be restored at the top, the lack of preparation for reform and the limitations imposed by Czechoslovakia's trade patterns would still leave the authorities unable to move forward appreciably in the economic sphere. As a result, the leadership plans to continue this year the main policies of 1968.

The government cannot risk affronting the population, which expects an improvement in its standard of living. Incomes therefore are to be allowed to rise substantially, and consumption will continue to grow, but substantial price increases will again cut into the net gain to the consumer. Investment in heavy industry and agriculture will decline further to permit sharply increased investment in consumer industries and services, especially housing. Shortages of high-quality consumer goods, however, are likely to persist.

Prague recognizes that these policies will have only a slight impact on basic problems. There are now only modest hopes for fundamental



Street Scene in Prague After the 1968 Invasion

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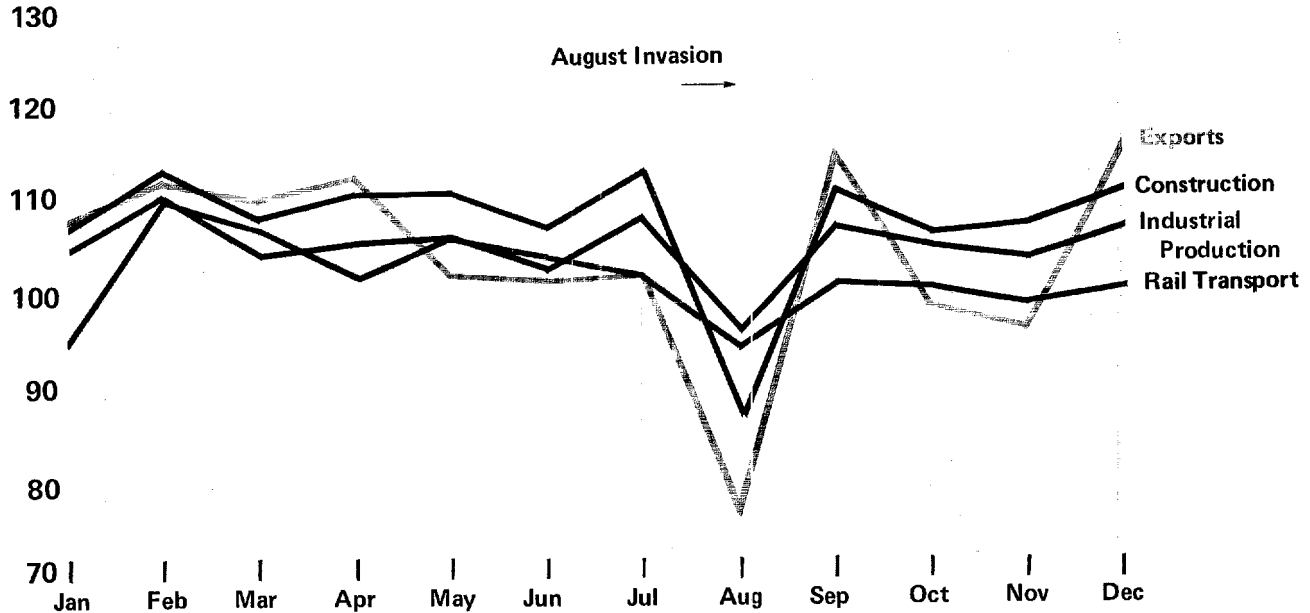
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CZECHOSLOVAKIA: BASIC ECONOMIC INDICATORS, 1968

(Comparable month in 1967 = 100)



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improvement, in contrast to the high expectations of a year ago which were based on the prospect of broad reforms and closer economic relations with the West, including a large infusion of hard currency. Present expectations are based largely on trade commitments with the USSR and on current negotiations for greater economic integration in Eastern Europe.

THE ECONOMY LAST YEAR

Economic growth continued last year despite the political confusion and the Soviet-led invasion. The official, inflated index of industrial production rose by 5.2 percent, and agricultural output rose by 3.6 percent, reaching a new high.

The net effect of the August invasion was that the government once again had to postpone basic economic decisions in order to deal with urgent political problems. The invasion and occupation disrupted the economy, but only temporarily. Physical damage during the invasion was minimal, with radio stations and their immediate surroundings the most severely affected.

The swift recovery of the economy was helped by the determination of the workers, who organized volunteer "Dubcek shifts" to make up for lost production, so as to salvage as much of the post-January gains as possible. The bureaucracy's ability to remain intact and to continue functioning also contributed to this recovery.

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The economy thus continued to grow through the end of the year. The slower rate of economic growth last year as compared with that of 1967 was only to a small degree the result of the occupation, since a substantial economic slowdown was already in evidence earlier in the year. In the long run, the occupation—and the political problems with the Soviets which it symbolizes—will not restrict economic growth directly as much as it will delay institutional changes aimed at efficiency that were envisaged in the economic reform program.

THE SPECTER OF INFLATION

Rapid increases in the funds at the disposal of enterprises have produced strong inflationary pressures, reflected in a rise in wage payments and in new construction starts. The deputy minister of planning has stressed the need to lower the excessive number of construction projects, to check the growth of personal incomes, and to reduce subsidies to industrial plants. Early in March a government spokesman emphasized to a gathering of trade union delegates what appears to be a tough anti-inflationary policy. The planned 7.9 percent increase in wages this year nevertheless remains in effect; Prague apparently intends to rely mainly upon further price increases to absorb excess purchasing power. It is doubtful, however, that the authorities will be able to adjust prices quickly enough to stem the inflationary tide.

INCREASED CONSUMPTION

According to official figures, personal consumption last year increased by an unprecedented nine percent. The actual increase, although less, was still unusually large for Czechoslovakia. Consumers bought many kinds of goods for hoarding, but retail stores remained well stocked. The leaders, fearing the loss of popular support during the chaotic postinvasion period, made additional sup-

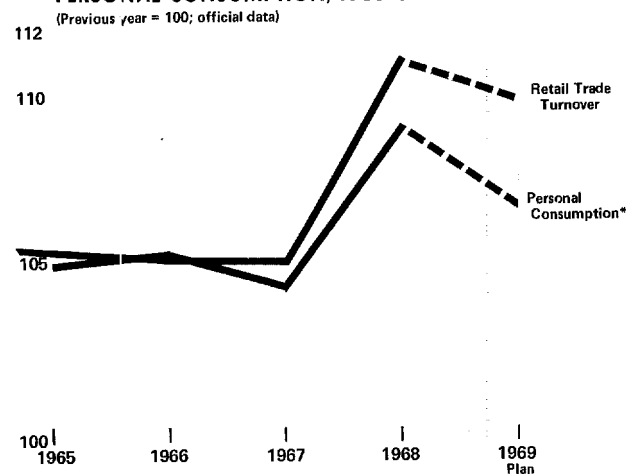
plies available, in part by diverting them from exports.

In order to minimize conflict with the unions, the regime decided not to oppose the rapid growth in wages of about 9 percent. Retail price increases, however, were substantially larger than is indicated by the over-all 1.9 percent increase shown in official statistics.

INVESTMENT POLICY

Investment grew by 8.6 percent last year, and its structure shifted as heavy industry's share of the total declined, while those for the formerly forsaken consumer-oriented industries and services increased. Nevertheless, fundamental problems persist in investment policy. Over half of all investment funds continue to be allocated to construction projects, which take unusually long to complete—up to six or seven years on the average.

**CZECHOSLOVAKIA:
INDEXES OF RETAIL TRADE TURNOVER AND
PERSONAL CONSUMPTION, 1965-69**
(Previous year = 100; official data)



* Although official statistics tend to exaggerate the absolute level and size of changes in personal consumption, these figures are believed to reflect the trend reliably.

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Czechoslovakia: Percentage Increases in Deliveries to the Domestic Market, Including Imports, 1968, (Selected Commodities)

Commodity	Increase
gasoline	16.0
heating and motor boat fuel	132.5
passenger cars	17.4
television sets	33.3
radio receivers	14.3
furniture	12.4
woolen fabrics	10.8
carpets	28.9
underwear	10.7
woolen clothing	5.3
cotton clothing	15.6
knitted clothing	7.9
bed linen	22.6
leather shoes	2.8
butter	1.9
cheese	4.3
cream	7.8
poultry*	21.2
meat and meat products*	5.4

**Excludes home slaughtering*

INEFFICIENCY IN INDUSTRIAL PRODUCTION

Inflationary pressures are only a symptom of the massive inefficiency built into the structure of Czechoslovakia's production and foreign trade as a result of many years of economic mismanagement. Following the Communist take-over in 1948, technically unqualified men assumed leading positions in government and industry. Following the dictates of the party, they concentrated available resources in heavy industry without regard to cost and at the expense of consumer-oriented industries and agriculture.

Much of the machinery and equipment in these less-privileged sectors consequently is ob-

solete, and output in all sectors is achieved at very high costs. For example, Czechoslovak industry consumes two or three times as much energy and steel per dollar's worth of output as in most advanced Western countries.

INEFFICIENCY IN FOREIGN TRADE

Twenty years of trading mainly with other Communist countries—which account for over 70 percent of its total—has promoted inefficiency in production and undermined the competitive position of Czechoslovak exports on the world market. Because of the poor quality of its industrial exports to the West the prices that Czechoslovakia receives average only about one half those obtained by its free world competitors.

The vicious circle is thus defined. Because Czechoslovakia is a country deficient in most industrial raw materials, foreign exchange earned from its unprofitable exports has to be used to pay for additional raw material imports, from which more obsolescent goods are produced. These are sold primarily to other Communist countries in exchange for raw materials and largely substandard machinery and equipment produced by other East European Communist countries caught in the same bind.

NO SHORT-RUN SOLUTIONS

The structural problems of the Czechoslovak economy cannot be corrected in the short run without massive foreign credits and fundamental institutional changes. Last spring the regime requested a credit of \$500 million in hard currency from the USSR. When prospects from this source faded, Prague sent out feelers to various Western European governments. There was even talk of Czechoslovakia's rejoining the International Monetary Fund so that it could get a loan from the World Bank. The August invasion dashed these hopes, with the result that the government now has only relatively small-scale Soviet assistance and the usual commercial credits.

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The Soviet leaders insist that they are doing all they can by increasing deliveries of grain, oil, and iron ore beyond the agreed amounts, making it unnecessary for the Czechoslovaks to spend hard currency for these items in the West. The USSR may grant Prague some financial assistance through the banks it owns in Western Europe, and the Dubcek government is still free to accept commercial and other supplier credits from the West, within the limits of its ability to pay for them. According to Premier Cernik, Czechoslovakia has assurances of credits totaling about \$200 million for goods to be imported from the West over the next few years.

The restructuring of the Czechoslovak economy would have been a long-term affair, even if there had been no August invasion and the regime had been able to secure all the foreign credits it needs. In reality, however, Prague must now attempt to implement its economic reform program with its own limited resources and within the confines of economic policies acceptable to the Soviet Union. In view of these restrictions, economic reform will make little if any progress in the immediate future.

The structure of the dual Czech-Slovak federation, which came into existence on 1 January, also restricts action on basic economic problems. At a minimum, there is an additional step now necessary to coordinate plans. The center in Prague no longer plans and administers the economy of the entire country, these functions having been assumed by the separate Czech and Slovak governments for their respective areas. Although a united federal policy would tend to weaken the independence of the two regional governments in this respect, the relative independence of the two regional governments will tend to reduce central control.

Of more immediate importance, there are likely to be serious disagreements over economic

policy between the Slovak Party headed by conservative-leaning Gustav Husak and the more liberal Czech leaders. Thus, the country's leadership is likely to remain divided, and agreement on controversial issues is likely to be delayed.

PROSPECTS

The same pattern of growth is expected this year as during 1967-68. The share of heavy industry and agriculture in total investment funds will continue to decline in 1969 to permit sharply increased investments in consumer industries and services, especially housing.

With reasonably good weather, the high level of agricultural output achieved last year may be maintained, but substantial growth is unlikely. Czechoslovak agriculture has arrived at a high plateau from which it will be difficult to achieve any increments. Agricultural workers have little incentive to increase output until the proposed policies favoring their welfare are actually implemented. Meanwhile, there have been reported shortages of fertilizers, fuels, and other resources. In addition, livestock numbers were reduced last year, thus limiting growth in this sector.

"Although the program of economic reforms had been accepted in principle before January 1968, the reforms were still in the stage of statements and partial measures. The latter include the existence of 80-90 workers' councils and the possibility granted to enterprises of independently developing foreign trade activities.... We have no concrete economic-political program as yet."

Dr. Karol Kouba, Chairman of the Czechoslovak Economic Society, addressing a press conference on 4 February 1969

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Bohemian Peasant Women Bundling Flax, Fall 1968

With no prospect for significant structural changes in the economy in the short run, inflationary pressures will remain strong, and economic growth will become increasingly dependent upon Soviet willingness to accept machinery for which there is no other market. Meanwhile, as imports from the USSR and other Eastern European Communist countries are planned to grow faster than exports, Czechoslovakia's chronic trade surpluses built up with these countries should be drawn down.

Trade with the West is burdened by a substantial and increasing hard-currency indebtedness, estimated by the Czechoslovaks themselves at about \$400 million early in 1968. Because of political and foreign exchange pressures as well as Prague's limited ability to expand sales to the free world, Czechoslovakia's trade with the West is likely to increase little and may even decline this year.

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